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Global Microfinance Tourism

Characteristics, opportunities and constraints - key findings

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KEY FINDINGS

Microfinance tourism: Characteristics,
opportunities and constraints

Giang Phi

April 2018

Microfinance tourism: Characteristics, opportunities and constraints

Background

For decades, both microfinance and tourism have been promoted as key strategies for global poverty alleviation. Microfinance can offer people living in poverty, especially those considered ‘unbankable’, the necessary financial and educational support to engage in entrepreneurial activities, while tourism has the capacity to reduce poverty via economic development and global citizenship education. Microfinance tourism (MFT) emerged in 2008 as an innovative approach that pioneers the integration of microfinance and tourism for poverty alleviation purposes.

This report provides a summary of research findings to participants in an independent PhD research project undertaken by Giang Phi at Griffith University, Australia. The research critically analyses and evaluates the extent to which MFT is an effective vehicle for poverty alleviation in developing countries, and makes recommendations for the practical development of MFT.

The research process

Multiple methods and sources of data were employed to generate a wealth of rich textual data for the global-local case study of MFT, including existing documents (e.g., websites, news articles, blogs), semi-structured interviews and participant observations.

At the global level, interviews took place between October 2014 and February 2016. Twelve respondents from six MFT organisations participated in the research. These are:

Name	Location
Fundación En Vía	Oaxaca, Mexico
Investours Mexico (now Human Connections)	Puerto Vallarta, Mexico
Investours Tanzania	Dar es Salaam, Tanzania
Zikra Initiative	Amman, Jordan
Microfinance and Community Development Institute	Hanoi, Vietnam
Bloom Microventures	Hanoi, Vietnam

At the local level, 26 face-to-face interviews were carried out during the researcher’s field trip to Phu Minh commune, Hoa Binh province, Vietnam between September and November 2014, followed by 5 Skype interviews conducted after the trip, from December 2014 to April 2015. Participant observations were also carried out during this fieldtrip.

SUMMARY OF FINDINGS (The Global level)

It has been shown throughout this study that MFT as a vehicle for poverty alleviation is inherently complex. MFT respondents' perceptions of what constitutes poverty vary widely and can range from a lack of assets or income, being deprived of basic needs/capabilities, and/or experiencing unequal power relations in the local and global structures. These diverse perceptions shape the conceptualisation of MFT as a multi-facet antipoverty intervention, which involves both the poor (i.e., microfinance clients) and the non-poor populations (i.e., microfinance tourists and tourism organisations).

Microfinance Tourism goals

At the global level, MFT's microfinance-related goals resemble the visions of traditional microfinance in terms of assisting people living in poverty to increase income/assets, develop personal capabilities and better meet basic needs through the provision of financial services. Both MFT and microfinance also seek to influence the global financing structures that prevent people living in poverty from getting access to the financial systems.

MFT's tourism-related goals (i.e., 'To foster compassionate active tourists' and 'To provide a socially responsible development-tourism alternative') seek to engage tourists and the tourism organisations as part of the broader solution for poverty issues. The visions of fostering compassionate active tourists and providing a socially responsible alternative to development-tourism not only involve directly delivering tourism benefits to people living in poverty and impoverished communities, but also fostering further actions from tourists and tourism organisations to positively influence the global structures (including exploitative and/or unjust tourism structures) that exaggerate and/or perpetuate poverty. MFT thus fits into an emerging discourse which views tourism as a social force (as opposed to an industry) that is capable of creating positive social-political changes beyond the confines of tourism experiences.

Microfinance Tourism characteristics

Four key findings clearly indicate that MFT is an innovative antipoverty intervention that can help to address many weaknesses of both 'traditional' microfinance and 'traditional' (development)-tourism as vehicles for poverty alleviation:

- (1) MFT utilises a **personal empowerment** approach to assist microfinance clients to improve their lives. MFT however, differs from mainstream microfinance as it supports a **microfinance-plus** approach that emphasizes intangible support (e.g., moral support and mentoring) alongside tangible support (i.e., micro-credit, education and training). In MFT, microfinance clients also receive extra moral support from tourists, which contributes to building the clients' self-motivation and self-efficacy.
- (2) MFT's **cross-subsidy financing** approach provides an alternative pathway for the microfinance sector to deal with the dilemma of achieving financial sufficiency versus serving more poor clients, especially people who live in extreme poverty. A tourism market-based approach is utilised in MFT, which helps to raise funds for microfinance activities and cross-subsidise the gap that occurs from providing below-market pricing for poorer clients. This approach also assists the MFT organisations to reduce dependency on external donors in order to realise financial self-sufficiency.
- (3) MFT respondents educate tourists of GC via an expanded **experiential learning** process that goes beyond the scope of a short microfinance tour. Pre-tour orientation and post-tour support (e.g., global online platform, borrower updates) provided by MFT organisations are seen as important elements to help tourists develop new insights about poverty/poverty alleviation and foster a range of actions to address poverty issues. The integration of microfinance during the tour (i.e., visiting microfinance clients' home) provides both '*personal*' and '*surprise*' elements to challenge tourists' stereotypes about people living in poverty. This helps to differentiate MFT from other development-tourism forms with the sub-text of '*giving*', '*helping*' and where people living in poverty are positioned as the '*needy other*'.
- (4) MFT respondents proposed a framework for socially responsible operations of development-tourism. **Ethical values** were integrated into MFT to ensure a just, equitable and mutually beneficial exchange process between tourists and individual poor/impoverished communities. This perspective reflects recent literature on power in tourism, which identifies tourism brokers (e.g., MFT founders, managers and staff) as having significant power to influence the nature and results of the host-guest encounter. Moreover, respondents proposed that an **internal financial and moral 'incentive system'** was embedded in the MFT program, as MFT works closely on a daily basis with the local borrowers to carry out both tourism and lending activities. One respondent suggested that an external self-regulation system for monitoring and evaluating

via **building a global online MFT platform** could be key approaches to help MFT maintain its socially responsible nature in long-term development.

Microfinance Tourism operational models

The respondents identified two existing MFT organisational structures: (1) *The hybrid MFT organisation*, which seek to directly implements MFT in a local area, and (2) *The platform MFT organisation*, which seeks to foster and manage MFT programs globally (Table 1)

Table 1: Global Microfinance Tourism’s Operational Models

<p><u>The ‘hybrid’ MFT organisation</u></p> <p>An organisation which directly delivers both microfinance and tourism activities in local areas</p>	<p><u>The ‘platform’ MFT organisation</u></p> <p>An intermediary organisation which connects existing MFT programs and provides assistance to develop and manage new MFT programs globally</p>
<p><u>Predominant mode of operations: Hybrid</u></p> <p><u>Advantage:</u> Strong relationships between staff and people living in poverty, deep understanding of local needs which translate into better product/service designs.</p> <p><u>Disadvantage:</u> Resource intensive, complicated operational and legal structures</p>	<p><u>Predominant mode of operations: Plug-and-play</u></p> <p><u>Advantage:</u> Minimise resource requirements and legal issues through connecting existing microfinance and tourism organisations to jointly deliver MFT programs through partnership</p> <p><u>Disadvantage:</u> Weak relationships between staff and people living in poverty, less flexibility to adjust products/service designs to suit local needs, potential of irresponsible tourism/microfinance organisations getting involved</p>
<p><u>A local focus in MFT development</u></p> <p><u>Branching strategy:</u> Focus on scaling organisation. High level of resource requirements and high degree of central control.</p>	<p><u>A global focus in MFT development</u></p> <p><u>Affiliation and dissemination strategies:</u> Focus on scaling social impact. Resource requirements and degree of central control decrease significantly compared to branching strategy, allowing the scaling up process to accelerate</p>

Arguably, the dominance of local focus in MFT development has resulted in very low scale of MFT impacts to date. Since its first operation in 2008, MFT has merely attracted a fraction of global tourists and benefited a small number of people living in poverty in six communities where the MFT

organisations operate. Unsurprisingly, when asked about impacts of the MFT programs on poverty alleviation, respondent 12 stated that *'I think it's slow. It's like a drop in the bucket'* [12], whilst respondent 4 expressed slight disappointment that *'we weren't able to support the number of people that we would have liked'* [4].

The current state of global MFT indicates a need to reconcile the local and global focus in MFT development, in order for MFT to reach higher scale of impact on global poverty issues. A more inclusive approach would generate more interest from the global MFT community to participate in the discussion regarding the advantages and drawbacks of each MFT operational model, *'to learn from each other and make it even better'* [10].

Microfinance Tourism key challenges

Five key challenges that could affect global MFT's effectiveness as a means for poverty alleviation were identified:

- (1) MFT respondents only perceived micro-financial services as the provision of micro-credit. Without micro-saving and micro-insurance, microfinance clients in MFT programs were at a higher risk when encountering shocks from their environment.
- (2) Small-scale MFT development has limited capacity to generate sufficient tourism profit, which prevents MFT organisations from being able to simultaneously achieve self-sufficiency and increase microfinance access to generate larger impacts.
- (3) The majority of MFT respondents only focused on fostering the general compassionate and philanthropic actions of tourists (i.e. 'thin' GC values) and this may lead to the simplification/de-politicisation of poverty. 'Thick' GC values in MFT, which better assist tourists to develop deeper insight of, or take actions to, address poverty's root causes, were often overlooked.
- (4) The MFT models may not suit many local conditions and interests (e.g., areas with weak infrastructure and economy, or when locals prefer direct distribution of tourism profits as opposed to channeling the profit via microfinance).
- (5) Both incentive systems and self-regulation to ensure ethical actions by MFT organizations and staff are voluntary by nature and hard to be enforced; hence, their effectiveness cannot be guaranteed.

RECOMMENDATIONS

Microfinance aspects of MFT	<ul style="list-style-type: none"> • Expand the scope of microfinance beyond micro-credit to provide people living in poverty with access to micro-saving and micro-insurance services to reduce risks when risk when encountering shocks • Integrate a range of financing options related to the microfinance aspects of MFT. This may include savings-mobilisation from both people living in poverty and the non-poor, as well as introducing positive pricing discrimination which charges the more well-off clients higher price for services (as opposed to standardised pricing strategies). • Develop a good understanding of local conditions, needs and interests in relation to microfinance as a vehicle for poverty alleviation
Tourism aspects of MFT	<ul style="list-style-type: none"> • Integrate elements of ‘thick’ global citizenship education (e.g., high level of reflections and dialogues among tourists on root causes of poverty) more extensively through pre-tour orientation, during the tour and post-tour support. This should also include training for tour guides to better act as facilitators during the process. • Develop a good understanding of local conditions, needs and interests in relation to tourism as a vehicle for poverty alleviation
Global MFT development	<ul style="list-style-type: none"> • Foster connections among existing MFT stakeholders to discuss inclusive approaches to global MFT development. This should include discussion on scaling up strategies. • The MFT platform organisation could adopt a more inclusive approach that facilitate the development and dissemination of all MFT organisational structures and modes of operations (i.e., informing and enabling potential local partners to decide between the hybrid versus plug-and-play mode of operation). • Support co-regulation (both self-regulation and government regulation) to ensure socially responsible conduct of new and existing MFT programs.

CONCLUDING REMARKS

Overall, this research highlights that MFT, though effective as a vehicle for poverty alleviation, is not a silver bullet that solves all poverty-related issues; nor should it be used as a blanket approach to poverty alleviation. Subsequently, effective communication and expansive collaboration among the MFT organisations and between the diverse MFT stakeholders, together with understanding and putting the local communities first, are important for the successful development of MFT.

Effective communication: This research confirms the diversity of perspectives and viewpoints inherent in the poverty alleviation environment. Effective communication therefore is necessary to bring these diverse perspectives to the surface and to bridge the perception gaps that currently hinder the development and effectiveness of MFT as a vehicle for poverty alleviation. By building social capital and trust among those directly involved in MFT, as well as the broader MFT stakeholders, pathways for open dialogues and discussions can be established for each participant to become more aware of other perspectives and when and where possible, to reconcile and reach consensus on the development of MFT.

Extensive collaboration: The alleviation of multiple facets of poverty requires comprehensive intervention and extensive resources that exceed the capacity of any single organisation. Beyond the need to expand collaboration among existing MFT organisations, this research points to the importance of establishing cross-sectoral partnerships (e.g., between public, private, civil society sectors, as well as between microfinance, tourism, agriculture etc sectors) to mobilise resources for expanding MFT's positive impacts. For instance, MFT organisation can leverage existing resources to better address local poverty by:

- establishing partnerships with the existing initiatives that offer micro-saving and micro-insurance to introduce and/or expand these services;
- establishing partnerships with other (I)NGOs and government organisations in the local area or elsewhere, especially those specialising in women advocacy and empowerment, to offer education/training and other gender-sensitive services that contribute to address gender inequality;
- establishing partnerships with volunteer tourism organisations, as well as national and overseas universities, to run a series of English and/or business workshops.

Understanding and putting local communities first: This research reveals that the extent of MFT's success as a vehicle for poverty alleviation is largely dependent on each community's conditions, needs and interests. MFT, just like microfinance and tourism, certainly should not be used as a blanket approach that imposes certain poverty alleviation goals and implementation pathways on the local communities. It is thus important to ensure the diverse MFT stakeholders (including the vulnerable and marginalised groups) in each area where MFT operates, can participate in, and are given sufficient power to direct the planning and implementation process of MFT to best reflect local conditions, needs and interests at any given time. This may including ceasing the MFT programs if need be.

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A local report of MFT in Vietnam can be found at:

https://www.academia.edu/36861952/KEY_FINDINGS_Microfinance_tourism_in_Phu_Minh_Vietnam

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